

Message Text

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TO AMCONSUL HONG KONG

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TAGS: ENRG OTRA HK

SUBJECT: POSSIBLE NUCLEAR PLANT FOR HONG KONG

REF: HONG KONG 11517

1. IN RESPONSE PARA 2 OF REFTEL:

A. ALTHOUGH USAEC CURRENTLY IS NOT RPT NOT ENTERING INTO ENRICHMENT SERVICES CONTRACTS FOR LONG-TERM REACTOR FUELING, IT IS ANTICIPATED THAT CONTRACTS FOR SUCH SERVICES WILL BE AVAILABLE FROM US PRIVATE ENRICHER(S) IN THE RELATIVELY NEAR FUTURE. FURTHER, THE FRENCH-CONTROLLED EURODIF COMPANY AND THE TRIPARTITE (UK/FRG/DUTCH) URENCO GROUP BOTH HAVE MAJOR ENRICHMENT FACILITIES UNDER CONSTRUCTION. OTHER ENRICHMENT VENTURES AND EXPANSIONS OF EXISTING PROGRAMS ARE

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UNDER ACTIVE CONSIDERATION BY A NUMBER OF NATIONAL AND MULTI-

NATIONAL GROUPS. IN SHORT, AVAILABILITY OF ENRICHMENT SERVICES IS NOT BELIEVED TO BE A LIMITING FACTOR IN THE GROWTH OF NUCLEAR POWER.

B. AS NOTED ABOVE, AEC'S EXISTING ENRICHMENT CAPACITY CURRENTLY IS COMMITTED AND NO FURTHER CONTRACTS ARE BEING WRITTEN. IT IS THE USG'S POLICY TO ENCOURAGE OUR PRIVATE INDUSTRY TO BUILD ADDITIONAL ENRICHMENT CAPACITY AS NEEDED TO MEET BOTH DOMESTIC AND FOREIGN NEEDS, BUT SHOULD INDUSTRY FAIL TO DO SO THE GOVERNMENT WILL ADOPT THE NECESSARY MEASURES TO ASSURE THAT SUCH CAPACITY IS BUILT PROMPTLY. IN EITHER EVENT, WE VISUALIZE THAT SUCH SERVICES COULD BE PROVIDED FOR HK FROM US SOURCES, SUBJECT TO AN APPROPRIATE AGREEMENT FOR COOPERATION (SEE PARA 3).

C. USG-PROVIDED THIRD-PARTY NUCLEAR LIABILITY INDEMNITY ("PRICE-ANDERSON") IS NOT AVAILABLE FOR NUCLEAR INCIDENTS INVOLVING REACTORS LOCATED ABROAD WHICH ARE NOT US OWNED. INsofar AS WE CAN DETERMINE, THE US COMMERCIAL POOLS WRITING SUCH COVERAGE ARE NOT PREPARED TO DO SO ABROAD. TYPICALLY, SUCH RISKS ARE COVERED UNDER ARRANGEMENTS WITH THE NATIONAL GOVERNMENT--AT LEAST TO THE EXTENT THAT THE DAMAGES MIGHT POTENTIALLY EXCEED THOSE WHICH REASONABLY COULD BE COVERED BY PRIVATE SOURCES. IN ADDITION, THERE IS THE PARIS CONVENTION OF JULY 29, 1960, ON THIRD-PARTY LIABILITY IN THE FIELD OF NUCLEAR ENERGY, WHICH WAS SPONSORED BY THE OECD. THE UK IS A PARTY TO THIS CONVENTION AND APPROPRIATE HK OR UK OFFICIALS MAY WISH TO DETERMINE WHETHER HK'S STATUS AS A CROWN COLONY MIGHT PERMIT ITS INCLUSION UNDER TH UK'S AEGIS. WE DO NOT KNOW WHETHER ANY NON-US COMPANY OR POOL MIGHT BE PREPARED TO WRITE THIS TYPE OF COVERAGE. WE BELIEVE THAT OTHER TYPES OF COVERAGE (E.G., ON-SITE LIABILITY OR LOSS) MIGHT BE AVAILABLE FROM PRIVATE SOURCES, SINCE THESE RISKS ARE MORE LIMITED AND PREDICTABLE THAN THOSE INVOLVED IN THIRD-PARTY LIABILITY.

2. ALTHOUGH EXIM BANK HAS PLAYED A MAJOR ROLE IN FINANCING US EQUIPMENT AND SERVICES FOR NUCLEAR PLANTS ABROAD IN THE PAST, THERE PRESENTLY EXISTS SEVERAL FACTORS WHICH MAY LIMIT ITS FUTURE COMMITMENTS IN THIS AREA. EXIM WOULD, OF COURSE, LIMITED OFFICIAL USE

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BE PREPARED TO CONSIDER A SPECIFIC PROPOSAL FOR A HONG KONG REACTOR, BUT THIS WOULD HAVE TO INCLUDE EXPLICIT TECHNICAL AND FINANCIAL DETAILS. EVEN SHOULD SUCH A COMMITMENT ULTIMATELY BE APPROVED, IT SHOULD BE RECOGNIZED THAT THE RELATIVELY HIGHER COMPONENT OF COMMERCIAL FINANCING AND THE BANK'S HIGHER INTEREST RATES WOULD RESULT IN A SIGNIFICANTLY HIGHER COMPOSIT COST OF MONEY THAN THAT OF A YEAR OR MORE AGO.

3. THE US ATOMIC ENERGY ACT REQUIRE THAT LICENSED EXPORT OF A POWER REACTOR OR TRANSFER OF SPECIAL NUCLEAR MATERIAL ABROAD (INCLUDING ENRICHED URANIUM FUEL) BE MADE ONLY PURSUANT TO AN AGREEMENT FOR COOPERATION. SUCH AGREEMENTS MAY BE ENTERED INTO BY THE US WITH A "NATION" OR A GROUP OR NATIONS". OBVIOUSLY, HONG KONG IS NOT TECHNICALLY ANY OF THESE, BUT USG NOW INVESTIGATING WHETHER SOME MECHANISM COULD BE DEvised TO BRING IT UNDER AN AGREEMENT. IF HK INTEREST IN A US REACTOR AND ENRICHMENT SERVICES SHOULD MATERIALIZE INTO A SPECIFIC PROJECT, WE WILL HAVE TO GIVE FURTHER CONSIDERATION TO THE QUESTION OF AN AGREEMENT. INGERSOLL

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